Consolidated Financial Statements and supplementary information

Hartford Hospital
Years Ended September 30, 2013 and 2012
With Report of Independent Auditors

Ernst & Young LLP

Building a better working world

Hartford Hospital

Consolidated Financial Statements and Supplementary Information

Years Ended September 30, 2013 and 2012

Contents

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Report of Independent Auditors

Board of Directors
Hartford HealthCare Corporation

We have audited the accompanying consolidated financial statements of Hartford Hospital (the Hospital), which comprise the consolidated balance sheets as of September 30, 2013 and 2012, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hartford Hospital at September 30, 2013 and 2012, and the consolidated results of its operations and changes in net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating balance sheet and consolidating statement of operations are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Ernst + Young LLP

January 31, 2014

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Hartford Hospital

Consolidated Balance Sheets

	September 30 2013	September 30 2012
Assets		
Current assets:		
Cash and cash equivalents	**$ 20,527,760**	$ 90,420,865
Interest in investments held by Endowment LLC	**6,932,385**	–
Accounts receivable, less allowances for doubtful accounts of approximately $29,195,000 in 2013 and $29,331,000 in 2012	**150,689,067**	151,801,702
Other receivables	**25,411,846**	26,353,179
Due from affiliates	**19,748,698**	23,556,883
Inventories of supplies	**11,186,533**	11,444,006
Prepaid expenses and other assets	**11,562,812**	8,182,320
Current portion of assets whose use is limited	**450,405**	450,405
Total current assets	**246,509,506**	312,209,360
Assets whose use is limited:		
Investments and other assets	**18,201,569**	262,973,702
Interest in investments held by Endowment LLC	**284,017,372**	–
Donor-restricted interest in investments held by Endowment LLC	**210,085,510**	–
Investments for restricted purposes	**8,513,381**	198,834,663
Escrow funds for long-term debt	**4,538,771**	23,210,563
Funds designated for debt service	**8,817,532**	7,125,567
	534,174,135	492,144,495
Funds held in trust by others	**137,029,182**	130,076,878
Other assets	**71,120,072**	93,329,541
Property, plant, and equipment, net	**394,196,561**	368,556,833
Total assets	**$ 1,383,029,456**	$ 1,396,317,107
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 22,363,854**	$ 27,220,741
Salaries, wages, payroll taxes, and amounts withheld from employees	**21,311,957**	21,692,976
Due to affiliates	**21,999,717**	6,619,179
Accrued expenses	**22,919,740**	28,465,921
Estimated third-party payor settlements	**13,084,951**	3,559,672
Current portion of long-term debt	**101,019,021**	64,503,933
Current portion of accrued pension liability	**8,047,176**	7,661,539
Current portion of other liabilities	**10,988,098**	9,950,447
Total current liabilities	**221,734,514**	169,674,408
Long-term debt	**210,952,088**	188,810,879
Accrued pension liability	**218,856,421**	372,843,056
Other liabilities	**37,533,464**	41,324,516
Total liabilities	**689,076,487**	772,652,859
Net assets:		
Unrestricted	**338,503,669**	294,595,271
Temporarily restricted	**135,289,907**	121,338,667
Permanently restricted	**220,159,393**	207,730,310
Total net assets	**693,952,969**	623,664,248
	$ 1,383,029,456	$ 1,396,317,107

See accompanying notes.

Hartford Hospital

Consolidated Statements of Operations and Changes in Net Assets

	Year Ended September 30	
	2013	**2012**
Unrestricted revenues, gains and other support:		
Net patient service revenue	**$ 921,252,388**	$ 926,633,051
Provision for bad debts	**17,467,613**	22,645,968
Net patient service revenue less provision for bad debts	**903,784,775**	903,987,083
Other operating revenue	**159,284,016**	164,924,459
Net assets released from restrictions for operations	**7,643,831**	7,590,655
	1,070,712,622	1,076,502,197
Operating expenses:		
Salaries and wages	**470,455,992**	452,952,481
Employee benefits	**164,809,818**	151,560,400
Supplies and other	**209,551,581**	202,770,420
Purchased services	**176,397,290**	165,509,618
Depreciation and amortization	**48,796,972**	46,693,027
Interest	**5,704,487**	4,517,043
	1,075,716,140	1,024,002,989
(Loss) income from operations	**(5,003,518)**	52,499,208
Nonoperating income:		
Income from investments, gifts, and bequests, net	**92,011,013**	17,335,109
Other	**(6,343,399)**	(4,771,635)
	85,667,614	12,563,474
Excess of revenues over expenses before change in unrealized gains and losses on investments	**80,664,096**	65,062,682
Change in unrealized gains and losses on investments	**(43,336,736)**	43,722,094
Excess of revenues over expenses	**37,327,360**	108,784,776

Continued on next page.

Hartford Hospital

Consolidated Statements of Operations and Changes in Net Assets (continued)

	Year Ended September 30	
	2013	2012
Unrestricted net assets:		
Excess of revenues over expenses (continued)	**$ 37,327,360**	$ 108,784,776
Transfer to affiliated entities	**(152,363,815)**	(51,031,423)
Net assets released from restrictions for the purchase of equipment	**5,590,891**	3,353,335
Change in pension and post-retirement funding obligation	**153,353,962**	(37,733,911)
Increase in unrestricted net assets	**43,908,398**	23,372,777
Temporarily restricted net assets:		
Restricted contributions	**5,592,477**	9,112,555
Restricted investment income	**3,377,925**	(695,445)
Return on investments held by Endowment LLC	**8,017,545**	–
Change in unrealized gains and losses on investments	**(20,176,933)**	21,070,962
Realized gains on investments	**30,374,948**	4,007,663
Net assets released from restrictions for operations	**(7,643,831)**	(7,590,655)
Net assets released from restrictions for the purchase of equipment	**(5,590,891)**	(3,353,335)
Increase in temporarily restricted net assets	**13,951,240**	22,551,745
Permanently restricted net assets:		
Restricted contributions	**4,719,249**	959,611
Restricted investment income	**553,176**	229,367
Return on investment held in Endowment LLC	**204,354**	–
Change in unrealized gains and losses on funds held in trust by others	**6,952,304**	14,237,658
Increase in permanently restricted net assets	**12,429,083**	15,426,636
Increase in net assets	**70,288,721**	61,351,158
Net assets at beginning of year	**623,664,248**	562,313,090
Net assets at end of year	**$ 693,952,969**	$ 623,664,248

See accompanying notes.

Hartford Hospital

Consolidated Statements of Cash Flows

	Year Ended September 30 2013	2012
Cash flows from operating activities		
Increase in net assets	**$ 70,288,721**	$ 61,351,158
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncash items:		
Depreciation and amortization	**48,796,972**	46,693,027
Change in unrealized gains and losses on investments	**63,513,669**	(64,793,056)
Change in investments held by Endowment LLC	**(28,301,975)**	–
Change in unrealized gains and losses on funds held in trust by others	**(6,952,304)**	(14,237,658)
Provision for bad debts	**17,467,613**	22,645,968
Change in net assets related to pension and post-retirement funding obligations	**(153,353,962)**	37,733,911
Transfer to affiliated entities	**152,363,815**	51,031,423
Other changes in net assets:		
Restricted contributions and investment income	**14,242,827**	(13,613,751)
Changes in assets and liabilities, net *(Note 14)*	**(9,944,651)**	(47,657,183)
Net cash provided by operating activities	**168,120,725**	79,153,839
Cash flows from investing activities		
Purchase of property, plant, and equipment, net	**(74,436,700)**	(89,393,888)
(Increase) decrease in assets whose use is limited, net	**(77,241,334)**	29,214,787
Net cash used in investing activities	**(151,678,034)**	(60,179,101)
Cash flows from financing activities		
Payments on long-term debt	**(5,971,334)**	(3,376,907)
Proceeds from long-term debt	**64,627,631**	48,131,369
Transfer to affiliated entities	**(130,749,266)**	(51,031,423)
Restricted contributions and investment income	**(14,242,827)**	13,613,751
Net cash (used in) provided by financing activities	**(86,335,796)**	7,336,790
Net (decrease) increase in cash and cash equivalents	**(69,893,105)**	26,311,528
Cash and cash equivalents at beginning of year	**90,420,865**	64,109,337
Cash and cash equivalents at end of year	**$ 20,527,760**	$ 90,420,865

See accompanying notes.

1. Significant Accounting Policies

The accounting policies that affect significant elements of Hartford Hospital's (the Hospital) consolidated financial statements are summarized below and in Note 2.

Organization

The Hospital is a voluntary association incorporated under the General Statutes of the State of Connecticut and is an affiliate of Hartford HealthCare Corporation (HHC). The Board of Directors of the Hospital, appointed by HHC, controls the operations of the Hospital. The accompanying consolidated financial statements include Hartford Hospital, Jefferson House and Cedar Mountain Commons (both of which are departments of the Hospital), and the Institute of Living. Jefferson House is a nursing home facility that is operated as a department of the Hospital as mandated by legislation enacted in 1873. Cedar Mountain Commons is a senior living community that opened in February 2001 and is owned by the Hospital and Jefferson House. The Institute of Living is a mental health center in Hartford, Connecticut, and is a wholly owned subsidiary of the Hospital

Prior to October 1, 2011, the Hospital had a 50% interest in Glastonbury Hand Center (the Center). Effective October 1, 2011, the Hospital acquired an additional one percent interest in the Center and began consolidating the Center in their financial statements with a corresponding non-controlling interest.

All material intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. There is at least a reasonable possibility that certain estimates will change by material amounts in the near term. Actual results could differ from those estimates.

1. Significant Accounting Policies (continued)

Regulatory Matters

The Hospital is required to file annual operating information with the State of Connecticut Office of Health Care Access.

Fair Value of Financial Instruments

The carrying value of financial instruments classified as current assets and current liabilities approximate fair value. The fair values of the Hospital's financial instruments are disclosed in Note 5.

Cash and Cash Equivalents

Cash and cash equivalents include cash, commercial paper, and corporate and government bonds that are available to be converted to liquid assets within three months. Cash and cash equivalents are maintained with domestic financial institutions with deposits that exceed federally insured limits. It is the Hospital's policy to monitor the financial strength of these institutions.

Patient Accounts Receivable

Patient accounts receivable result from the health care services provided by the Hospital. Additions to the allowance for doubtful accounts result from the provision for bad debts. Accounts written off as uncollectible are deducted from the allowance for doubtful accounts.

The amount of the allowance for doubtful accounts is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage, and other collection indicators. See Note 2 for additional information relative to third-party payor programs.

The Hospital's primary concentration of credit risk is patient accounts receivable, which consist of amounts owed by various governmental agencies, insurance companies, and private patients. The Hospital manages the receivables by regularly reviewing its patient accounts and contracts and by providing appropriate allowances for uncollectible amounts. Significant concentrations of gross patient accounts receivable include 23% and 10%, and 26% and 12%, for Medicare and Medicaid, respectively, for the fiscal years ended September 30, 2013 and 2012, respectively.

1. Significant Accounting Policies (continued)

Interest in Investments Held by Hartford Healthcare Endowment LLC

Effective August 29, 2011, Hartford HealthCare Endowment LLC (Endowment LLC) was created to maintain and manage, on a pooled basis, the endowment funds of the Hospital; Windham Community Memorial Hospital, Inc.; MidState Medical Center; The Hospital of Central Connecticut at New Britain General and Bradley Memorial; HHC; and Hartford HealthCare at Home, Inc. Endowment LLC, a wholly owned subsidiary of HHC, acts as manager and is named fiduciary for HHC within established investment guidelines. As of April 1, 2013, $485,454,102 of the Hospital's investments were sold to Endowment LLC, at which time all previously unrealized gains and losses on the sold investments were realized. As of September 30, 2013, the Hospital has an interest in investments held by Endowment LLC, which is reflected in the accompanying consolidated balance sheets and represents the Hospital's pro rata share of Endowment LLC.

The Hospital reports its share of the increase or decrease in Endowment LLC as income or loss from investments in the excess of revenues over expenses, unless the income or loss is restricted by donor or law. Investments held by Endowment LLC in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value using quoted market prices or model-driven valuations at the consolidated balance sheet date. Alternative investments (nontraditional, not-readily-marketable assets), some of which are structured such that Endowment LLC holds limited partnership interests, are reported based upon net asset value and derived from the application of the equity method of accounting. Individual investment holdings within the alternative investments may, in turn, include investments in both nonmarketable and market-traded securities. Valuations of these investments and, therefore, Endowment LLC's holdings may be determined by the investment manager or general partner and for "fund of funds" investments are primarily based on financial data supplied by the underlying investee funds. Values may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Endowment LLC accounts for these investments using the equity method of accounting and reports its share of the increase or decrease in the funds' value as investment gain or loss. The financial statements of the investees are audited annually by independent auditors, although the timing for reporting the results of such audits does not coincide with Endowment LLC's annual consolidated financial statement reporting.

1. Significant Accounting Policies (continued)

Investments

The Hospital's investment portfolio is classified as trading, with unrealized gains and losses included in the excess of revenues over expenses.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value using quoted market prices or model-driven valuations at the consolidated balance sheet date. In 2012, alternative investments consisted of investments in hedge funds. The Hospital accounted for these investments using the equity method of accounting, except for investments held by the defined benefit pension plan, and reported its share of the increase or decrease in the funds' value as investment gain or loss. Alternative investments held by the defined benefit pension plan are held at fair value as estimated in an unquoted market. Assets temporarily and permanently restricted (by donor) are recorded at fair value at the date of donation, which is then considered cost. Investment income (including realized gains and losses on investments, interest and dividends, and the change in unrealized gains and losses) is included in nonoperating income unless the income or loss is restricted by the donor or law. The cost of securities sold is based on the specific identification method.

The Hospital holds nonmarketable equity investments in private companies. At September 30, 2013 and 2012, the carrying value of the Hospital's portfolio of strategic investments totaled $7,746,899 and $7,454,065, respectively of which $76,751 are accounted for at cost at September 30, 2013 and 2012, and $6,791,082 and $6,501,642 are accounted for using the equity method of accounting at September 30, 2013 and 2012, respectively. These investments are included in other assets on the consolidated balance sheets. The Hospital's share of the income or losses of all equity-method investees, using the most current financial information available, which reflects the financial performance three months in arrears, is included in nonoperating income.

Inventories

Inventories are stated at the lower of cost or market. The Hospital values its inventories using the first-in, first-out method.

1. Significant Accounting Policies (continued)

Goodwill

Goodwill represents the excess of cost of an acquired entity over the net of the amounts assigned to the fair value of assets acquired and liabilities assumed. As of September 30, 2013 and 2012, goodwill of approximately $25.8 million is recorded in the Hospital's consolidated balance sheets within other assets. Goodwill is reviewed annually for impairment or more frequently if events or circumstances indicate that the carrying value of an asset may not be recoverable. The impairment test for goodwill requires a comparison of fair value of each reporting unit that has goodwill associated with its operations with its carrying amount. During 2013, the Hospital adopted the provisions of Accounting Standards Update (ASU) 2011-08, *Testing Goodwill for Impairment*, which allows the Hospital to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative impairment test for goodwill. Refer to New Accounting Pronouncements section.

The impairment test includes estimating the fair value of each of the reporting units that have goodwill associated with their operations using discounted cash flow and multiples of cash earnings valuation techniques, plus valuation comparisons to recent public sales of similar businesses, if any. These valuation methods require the Hospital to make estimates and assumptions regarding future operating results, cash flows, changes in working capital and capital expenditures, profitability, and the cost of capital. Although the Hospital believes that the estimates and assumptions used are reasonable, actual results could differ from the estimates and assumptions. No impairments were recorded for goodwill for the fiscal years ended September 30, 2012 and 2013.

Property, Plant, and Equipment

Property, plant, and equipment are stated on the basis of cost. The Hospital provides for depreciation of property, plant and equipment and assets under capital leases using the straight-line method in amounts sufficient to depreciate the cost of the assets over their estimated useful lives, which range from 3 to 40 years.

1. Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

Conditional asset retirement obligations recorded under the provisions of Accounting Standards Codification (ASC) 410-20, *Asset Retirement Obligations*, amounted to $2,497,171 and $2,522,839 as of September 30, 2013 and 2012, respectively. These obligations are recorded in other liabilities in the accompanying consolidated balance sheets. There are no assets that are legally restricted for purposes of settling asset retirement obligations. During 2013 and 2012, retirement obligations incurred and settled were approximately $13,700 and $619,000, respectively. Accretion expense was immaterial for the fiscal years ended September 30, 2013 and 2012.

Assets Whose Use is Limited

Assets whose use is limited includes assets that are set aside internally by management or by the Board of Directors for future capital improvements, research, donor-restricted assets, education, escrow funds, and debt service funds for existing obligations on outstanding long-term debt. Amounts that are restricted by the Board of Directors are not available for use without the approval of the Board of Directors. Restricted investment income in excess of a predetermined spending limit has also been set aside as long-term investments. Investments for restricted purposes are those restricted based on donors' intents.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those assets whose use by the Hospital has been limited by donors to a specific time frame or purpose. Permanently restricted net assets have been restricted by donors and are maintained by the Hospital in perpetuity. The Hospital is a partial beneficiary to various perpetual trust agreements. Assets recorded under these agreements are recognized at fair value. The investment income generated from these funds is expendable to support healthcare services, and the assets are classified as permanently restricted.

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Unrestricted contributions are recorded, net of expenses, within other operating revenue.

Pledges receivable to be received after one year are discounted to present value, and an allowance for uncollectible pledges is recorded. Amortization of the discount is recognized as revenue and is reflected in accordance with donor-imposed restrictions, if any, on the contributions.

1. Significant Accounting Policies (continued)

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are unrestricted contributions in the accompanying consolidated financial statements, except those relating to donations of long-lived assets.

Bond Issuance Costs

Bond issuance costs associated with long-term debt for capital projects are amortized over the term of the debt using a method that approximates the effective interest method. Bond issuance costs of $2,430,387 and $2,176,559 are recorded in other assets in the consolidated balance sheets as of September 30, 2013 and 2012, respectively.

Other Operating Revenue

Other operating revenue includes services to other subsidiaries of HHC and other institutions, electronic health record incentive program revenue, equity earnings of CHS Insurance Limited in 2012, school tuition, rental income, grant income, research income, and unrestricted contributions.

Nonoperating Income

Nonoperating income includes income on investments, return on interest in investments held by Endowment LLC, realized and unrealized gains and losses on trading investments, restricted gifts, bequests, and the excess of revenues over expenses of Jefferson House and Cedar Mountain Commons.

1. Significant Accounting Policies (continued)

Excess of Revenues over Expenses

The consolidated statements of operations and changes in net assets include the excess of revenues over expenses as the performance indicator. Changes in unrestricted net assets, which are excluded from the excess of revenues over expenses, include the changes in pension and post-retirement funding obligations, net assets released from restrictions for the purchase of equipment, and permanent transfers of assets to and from affiliates.

Professional Liability and Workers' Compensation Insurance

Coverage for medical malpractice insurance is provided on a claims-made basis. The primary coverage is with CHS Insurance Limited (CHS), a captive insurance company that, effective October 1, 2012 became a wholly owned subsidiary of HHC. Prior to this the Hospital had a 25% ownership interest, which was repurchased by CHS and transferred to HHC. For the year ended September 30, 2012, the Hospital's ownership was accounted for under the equity method and was included in other assets in the accompanying consolidated balance sheets. The Hospital's share of the investment activity of CHS was included in other operating revenue within the accompanying consolidated statement of operations and changes in net assets and was approximately $25,653,000 for the year ended September 30, 2012. As a result of the repurchase, the Hospital's equity investment of $21,614,549 was derecognized, and $31,758,335 of unrestricted net assets were transferred to HHC during 2013 to recapitalize CHS. This is reflected in the consolidated statements of operations and changes in net assets within transfer to affiliates.

On October 1, 2012, the policy limits were amended. The primary coverage went from $10,000,000 per claim and $39,000,000 in the aggregate to $7,500,000 per claim and $35,000,000 in the aggregate. The excess plan was restructured as well. The primary layer of $20,000,000 is shared with two insurance carriers. The secondary layer is $20,000,000 with a single insurance carrier. The third and fourth layers are $10,000,000 each with two other insurance carriers, for a total excess coverage of $60,000,000.

Malpractice claims are discounted at 2.08% and 2.49% and the incurred-but-not-reported liability was approximately $10,023,000 and $10,382,000 at September 30, 2013 and 2012, respectively.

1. Significant Accounting Policies (continued)

Professional Liability and Workers' Compensation Insurance (continued)

The Hospital has an established policy of self-insuring the deductible portion of its workers' compensation insurance. The deductible limits are $1,000,000 per claim for fiscal years ended September 30, 2013 and 2012. In connection with this self-insurance program, Bank of America issued an irrevocable direct pay letter of credit to the Travelers Indemnity Company, the primary insurer, for an amount not to exceed $8,750,000 and $7,100,000 at September 30, 2013 and 2012, respectively. The reserve recorded by the Hospital is approximately $12,015,000 and discounted at 4% as of September 30, 2013 and 2012.

Income Taxes

The Hospital is a not-for-profit corporation as described in Section 50l(c)(3) of the Internal Revenue Code (the Code) and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

Electronic Health Record Incentive Program

The Centers for Medicare & Medicaid Services (CMS) have implemented provisions of the American Recovery and Reinvestment Act of 2009 that provide incentive payments for the meaningful use of certified electronic health record (EHR) technology. CMS has defined meaningful use as meeting certain objectives and clinical quality measures based on current and updated technology capabilities over predetermined reporting periods as established by CMS. The Medicare EHR incentive program provides annual incentive payments to eligible professionals, hospitals, and critical access hospitals, as defined, that are meaningful users of certified EHR technology. The Medicaid EHR incentive program provides annual incentive payments to eligible professionals and hospitals for efforts to adopt, implement, and meaningfully use certified EHR technology. The Hospital uses a grant accounting model to recognize EHR incentive revenues. EHR incentive revenues are recognized ratably over the relevant cost report period to determine the amount of reimbursement. The Hospital recognized approximately $3.3 million and $4.7 million of EHR revenues during the fiscal years ended September 30, 2013 and 2012, respectively. Correspondingly, the Medicare and Medicaid components, respectively, of EHR revenues are approximately $2.3 million and $1.0 million and $3.2 million and $1.5 million for 2013 and 2012, respectively. EHR incentive revenues are included in other operating revenues in the accompanying consolidated statements of operations and changes in net assets.

1. Significant Accounting Policies (continued)

The Hospital's attestation of compliance with the meaningful use criteria is subject to audit by the federal government or its designee. Additionally, Medicare EHR incentive payments received are subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were calculated.

New Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IRFSs*, to amend the requirement for measuring and disclosing information about fair value that results in common principles between GAAP and International Financial Reporting Standards (IFRSs). The amendments clarify the FASB's intent about the application of existing fair value measurement and disclosure requirements and change particular principles and requirements for measuring or disclosing information about fair value. Principles changed include measuring fair value of financial instruments that are managed within a portfolio, application of premiums and discounts in the fair value measurement, and additional disclosures about fair value measurements. The standard became effective for the Hospital for annual reporting periods beginning after December 15, 2011. The Hospital adopted the provisions of this standard on October 1, 2012. The adoption had no effect on previously reported excess of revenues over expenses or net assets.

In July 2012, the FASB issued ASU 2011-08, *Intangibles – Goodwill and Other (Topic 350): Testing Goodwill for Impairment*, to allow an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under this standard, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The standard became effective for the Hospital for annual reporting periods beginning after September 15, 2012. The Hospital adopted the provisions of this standard on October 1, 2012, and its adoption did not affect excess of revenues over expenses or net assets. Based on the examination of qualitative factors at September 30, 2013, the Hospital concluded that it was not more likely than not that the fair value was less than carrying value; therefore, no further testing of the goodwill was required.

1. Significant Accounting Policies (continued)

Reclassifications

Certain reclassifications have been made to the fiscal year ended September 30, 2012, balances previously reported in the consolidated balance sheet and statement of operations and changes in net assets in order to conform with the fiscal year ended September 30, 2013, presentation.

2. Net Patient Service Revenue and Charity Care

Revenues from the Medicare and Medicaid programs, respectively, accounted for approximately 42% and 11% and 43% and 12% of the Hospital's net patient service revenue for the fiscal years ended September 30, 2013 and 2012, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by material amounts in the near term.

The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Hospital.

2. Net Patient Service Revenue and Charity Care (continued)

The following table summarizes net revenue from services to patients:

	Year Ended September 30	
	2013	**2012**
Gross revenues from patients:		
Inpatients	**$ 1,551,885,696**	$ 1,483,172,404
Outpatients	**860,051,337**	772,588,784
	2,411,937,033	2,255,761,188
Deductions:		
Allowances and discounts	**1,462,507,969**	1,303,734,039
Charity care	**28,176,676**	25,394,098
Net patient service revenue	**921,252,388**	926,633,051
Provision for bad debts	**17,467,613**	22,645,968
Net patient service revenue less provision for bad debts	**$ 903,784,775**	$ 903,987,083

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. The difference is accounted for as allowances. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, fee-for-service, discounted charges, and per diem payments. Net patient service revenue is affected by the State of Connecticut Disproportionate Share program and is reported at the estimated net realizable amounts due from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. During 2013 and 2012, the Hospital recorded net changes in estimates of approximately $0.8 million and $12.8 million, respectively, which primarily related to better than previously estimated third-party payor settlements.

2. Net Patient Service Revenue and Charity Care (continued)

The Hospital has established estimates based on information presently available of amounts due to or from Medicare, Medicaid, and third-party payors for adjustments to current and prior year payment rates, based on industry-wide and Hospital-specific data. Such amounts are included in the accompanying consolidated balance sheets. Additionally, certain payors' payment rates for various years have been appealed by the Hospital. If the appeals are successful, additional income applicable to those years might be realized.

The Hospital has agreements with various health maintenance organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the HMOs make fee-for-service payments to the Hospital for certain covered services based upon discounted fee schedules.

The Hospital accepts all patients regardless of their ability to pay. A patient is c1assified as a charity patient by reference to the established policies of the Hospital. Essentially, these policies define charity services as those services for which no payment is anticipated. In assessing a patient's inability to pay, the Hospital utilizes the generally recognized poverty income levels for the State of Connecticut but also includes certain cases where incurred charges are significant when compared to incomes.

The Hospital's policy is to reserve a portion of all self-pay receivables, including amounts due from the uninsured and amounts related to co-payments and deductibles, as these charges are recorded. On a monthly basis, the Hospital reviews its accounts receivable balances, the effectiveness of the Hospital's reserve policies, and various analytics to support the basis for its estimates. These efforts primarily consist of reviewing the following:

- Revenue and volume trends by payor, particularly the self-pay components.
- Changes in the aging and payor mix of accounts receivable, including increased focus on accounts due from the uninsured and accounts that represent co-payments and deductibles due from patients.
- Various allowance coverage statistics.

The Hospital regularly performs hindsight procedures to evaluate historical write-off and collection experience throughout the year to help determine the reasonableness of its process for estimating the allowance for doubtful accounts.

2. Net Patient Service Revenue and Charity Care (continued)

The Hospital provides services without charge or at amounts less than its established rates to patients who meet the criteria of its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, such services are not reported as revenue. For patients who were determined by the Hospital to have the ability to pay but did not, the uncollected amounts are recorded as part of the provision for bad debts. In distinguishing charity care from the provision for bad debts, a number of factors are considered, certain of which require a high degree of judgment.

Patient service revenue, net of contractual allowances and discounts and before the provision for bad debts, recognized in the period from major payor sources for the fiscal years ended September 30, 2013 and 2012, is as follows:

	2013	**2012**
Medicare	**42%**	40%
Medicaid	**11**	11%
Self-pay	**4**	4
All other	**43**	45
	100%	100%

The estimated cost of charity care provided was $12,510,698 and $11,173,400 for the fiscal years ended September 30, 2013 and 2012, respectively. The estimated cost of charity care is based on the ratio of cost to charges, as determined by hospital-specific data.

3. Net Assets

Temporarily restricted net assets at September 30 are available for the following purposes:

	2013	2012
Health care services:		
Free beds	**$ 37,657,208**	$ 29,499,059
Research	**40,180,080**	35,343,894
Education	**12,996,298**	11,758,617
Capital replacement	**10,466,962**	11,778,741
Other health care services	**33,989,359**	32,958,356
	$ 135,289,907	$ 121,338,667

Permanently restricted net assets at September 30 are restricted for**:**

	2013	2012
Investments to be held in perpetuity, the income from which is expendable to support healthcare services	**$ 60,868,896**	$ 56,149,656
Endowment requiring income to be added to original gift to support healthcare services	**22,261,315**	21,503,776
Restricted funds held in trust by others, the income from which is expendable to support healthcare services	**137,029,182**	130,076,878
	$ 220,159,393	$ 207,730,310

The Hospital's endowment consists of hundreds of individual funds established for a variety of purposes. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

3. Net Assets (continued)

The Board of Directors of the Hospital has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently net restricted assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Hospital considers the following factors in making a determination to appropriate or accumulate donor-restricted funds:

1) The duration and preservation of the fund
2) The purposes of the Hospital and the donor-restricted endowment fund
3) General economic conditions
4) The possible effect of inflation and deflation
5) The expected total return from income and the appreciation of investments
6) Other resources of the Hospital
7) The investment policies of the Hospital

The Hospital has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Hospital must hold in perpetuity or for a donor-specific period(s). Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management costs, of at least 4% over the long term. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Hospital relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Hospital targets a diversified asset allocation that places a greater emphasis on equity-based alternative investments to achieve its long-term objectives within prudent risk constraints.

3. Net Assets (continued)

The Hospital has a policy of appropriating for distribution each year 4% of the four quarter average market value of each fiscal year in which the distribution is planned. This is consistent with the Hospital's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment returns. The Hospital also evaluated endowment spending based on need and current market conditions as well as long-term investment goals.

Changes in endowment funds for the fiscal year ended September 30, 2013, consisted of the following:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 67,274,063	$ 77,653,432	$ 144,927,495
Investment return:			
Investment income	1,505,374	757,530	2,262,904
Net appreciation (realized and unrealized)	12,816,728	–	12,816,728
Total investment return	14,322,102	757,530	15,079,632
Contributions	–	4,719,249	4,719,249
Appropriation of endowment assets for expenditure	(4,312,025)	–	(4,312,025)
Endowment net assets, end of year	$ 77,284,140	$ 83,130,211	$ 160,414,351

3. Net Assets (continued)

Changes in endowment funds for the fiscal year ended September 30, 2012, consisted of the following:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 53,862,717	$ 76,464,454	$ 130,327,171
Investment return:			
Investment income	615,382	229,367	844,749
Net appreciation (realized and unrealized)	17,285,715	–	17,285,715
Total investment return	17,901,097	229,367	18,130,464
Contributions	–	959,611	959,611
Appropriation of endowment assets for expenditure	(4,489,751)	–	(4,489,751)
Endowment net assets, end of year	$ 67,274,063	$ 77,653,432	$ 144,927,495

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor, as stipulated by UPMIFA, requires the Hospital to retain as a fund of perpetual duration. These deficiencies periodically result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions, in which case the Board of Directors may deem imprudent the continuation of appropriation for a limited period. There were no material deficiencies of this nature which are reported in unrestricted net assets as of September 30, 2013 or 2012.

4. Assets Whose Use is Limited

Included in assets whose use is limited are the following amounts:

	September 30	
	2013	**2012**
Cash and cash equivalents	**$ 5,089,009**	$ 16,906,268
Interest in investment held by Endowment LLC	**494,102,882**	–
Money market funds	**13,806,709**	30,786,535
Equity securities:		
U.S.	**643,317**	41,186,599
Fixed income securities:		
U.S.	**1,877,354**	41,073,215
Mutual funds:		
U.S.	**–**	67,764,935
International	**–**	82,054,217
Common collective funds:		
U.S.	**4,785,830**	129,916,194
International	**–**	41,493,797
Alternative investments and other	**–**	20,888,454
Other notes and accounts receivable	**109,809**	129,856
Pledges receivable, net	**2,842,378**	4,187,423
Due from affiliated entities, net	**11,367,252**	16,207,407
	$ 534,624,540	$ 492,594,900

During 2013, a significant portion of the Hospital's assets whose use is limited was transferred to Endowment LLC, as discussed in Note 1.

The Hospital advances funds to affiliates to provide capital for the expansion of certain mission-related activities. The Hospital expects these advances to be repaid, generally with interest. Periodically, amounts outstanding are reviewed for collectibility, and adjustments are provided where collection is doubtful.

4. Assets Whose Use is Limited (continued)

The composition and presentation of income from investments, gifts, and bequests, net, which are included in nonoperating income in the consolidated statements of operations and changes in net assets, are as follows:

	Year Ended September 30	
	2013	**2012**
Interest and dividend income	**$ 6,167,962**	$ 8,642,202
Return on interest in investements held by Endowment LLC	**20,080,076**	–
Realized gains on investments, net	**65,522,494**	7,888,278
Contributions	**240,481**	804,629
	$ 92,011,013	$ 17,335,109

5. Fair Values of Financial Instruments

As defined in ASC 820, *Fair Value Measurement*, fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, ASC 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

> *Level 1:* Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
>
> *Level 2:* Observable inputs are based on inputs not quoted in active markets, but corroborated by market data.
>
> *Level 3:* Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

5. Fair Values of Financial Instruments (continued)

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Hospital uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

Financial assets carried at fair value in the accompanying consolidated balance sheets, excluding assets invested in the Hospital's defined benefit pension plan and Endowment LLC, are classified in the following tables below in one of the three categories described above:

	September 30, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets				
Cash and cash equivalents	**$ 20,527,760**	**$ –**	**$ –**	**$ 20,527,760**
Assets whose use is limited:				
Cash and cash equivalents	**5,089,009**	**–**	**–**	**5,089,009**
Money market funds	**13,806,709**	**–**	**–**	**13,806,709**
Equity securities:				
U.S.	**643,317**	**–**	**–**	**643,317**
Fixed income securities:				
U.S.	**–**	**1,877,354**	**–**	**1,877,354**
Common collective funds:				
U.S.	**–**	**4,785,830**	**–**	**4,785,830**
Other assets:				
Domestic mutual funds	**7,976,887**	**–**	**–**	**7,976,887**
Funds held in trust by others	**–**	**137,029,182**	**–**	**137,029,182**
Total	**$ 48,043,682**	**$ 143,692,366**	**$ –**	**$ 191,736,048**

The Hospital has $501,035,267 of financial assets as of September 30, 2013, that are held by Endowment LLC (refer to Note 1). Financial assets classified within the trust are 63.8% Level 1, and 36.2% Level 2.

5. Fair Values of Financial Instruments (continued)

	September 30, 2012			
	Level 1	Level 2	Level 3	Total
Assets				
Cash and cash equivalents	$ 90,420,865	$ –	$ –	$ 90,420,865
Assets whose use is limited:				
Cash and cash equivalents	16,906,268	–	–	16,906,268
Money market funds	30,786,535	–	–	30,786,535
Equity securities				
U.S.	41,186,599	–	–	41,186,599
Fixed income bonds:				
U.S.	–	41,073,215	–	41,073,215
Mutual funds:				
U.S.	67,764,935	–	–	67,764,935
International	82,054,217	–	–	82,054,217
Common collective funds:				
U.S.	–	129,916,194	–	129,916,194
International	–	41,493,797	–	41,493,797
Other assets:				
Domestic mutual funds	6,318,194	–	–	6,318,194
Funds held in trust by others	–	130,076,878	–	130,076,878
Total	$ 335,437,613	$ 342,560,084	$ –	$ 677,997,697

The amounts reported in the table above do not include alternative investments totaling $20,888,454 that are accounted for under the equity method of accounting.

Financial assets carried at fair value included in the cash balance retirement plan are held in an HHC master trust. The Hospital owns participant units in the trust. Financial assets classified within the trust are 53.4% Level 1, 34.4% Level 2, and 12.2% Level 3 as of September 30, 2013, and 43.3% Level 1, 45.4% Level 2 and 11.3% Level 3 as of September 30, 2012.

5. Fair Values of Financial Instruments (continued)

Fair value for Level 1 assets is based upon quoted market prices. Fair value for Level 2 assets is based upon model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers, and brokers.

The methods described above may produce a fair value that may not be indicative of net realizable value or reflect future fair values. Furthermore, while the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

6. Property, Plant, and Equipment

Property, plant, and equipment consist of the following at September 30:

	2013	2012
Land and land improvements	**$ 25,005,192**	$ 24,168,711
Buildings and building improvements	**617,251,881**	556,370,268
Equipment	**430,555,831**	407,092,717
	1,072,812,904	987,631,696
Less accumulated depreciation	**(729,283,731)**	(682,475,713)
	343,529,173	305,155,983
Construction in process (estimated cost to complete - $20,122,000)	**50,667,388**	63,400,850
	$ 394,196,561	$ 368,556,833

The Hospital capitalized interest expense of $2,223,468 and $1,083,286 for the fiscal years ended September 30, 2013 and 2012, respectively.

7. Pensions and Other Postretirement Benefits

The Hospital has a cash balance retirement plan, the Retirement Plan for Employees of Hartford Hospital, covering substantially all employees, and a noncontributory, supplemental defined benefit retirement plan for certain executive employees (collectively, the pension plans). Contributions to the pension plans are based on actuarially determined amounts sufficient to meet the benefits to be paid to the plan participants. The assets of the pension plans are available to pay the benefits of eligible employees for participating entities based on their allocated share of assets. The service cost component of net periodic pension cost and all other components are actuarially determined as defined by each plan.

The benefits are based on years of service and the employees' compensation as defined by each of the plans. The Hospital makes contributions in amounts sufficient to fund the pension plans' current service cost, and the funding policy is to contribute amounts to these plans sufficient to meet the minimum funding requirement set forth by federal government regulations.

The Hospital provides healthcare and life insurance benefits to its retired employees who meet certain eligibility requirements. The Hospital's policy is to fund the cost of postretirement benefits, other than pensions, as incurred.

The Hospital has a defined contribution plan. Pension expense for the defined contribution plan was $13,460,328 and $11,193,634 for the fiscal years ended September 30, 2013 and 2012, respectively.

Included in unrestricted net assets at September 30 are the following amounts that have not yet been recognized in net periodic benefit cost:

	2013	2012
Unrecognized actuarial loss	**$ 227,144,339**	$ 384,158,111
Unrecognized prior service credit	**(3,607,383)**	(7,267,193)
	$ 223,536,956	$ 376,890,918

The actuarial loss and prior service credit included unrestricted net assets at September 30, 2013, and expected to be recognized in net periodic benefit cost during the fiscal year ending September 30, 2014, are as follows:

Unrecognized actuarial loss	$ 15,924,601
Unrecognized prior service credit	(2,037,089)
	$ 13,887,512

7. Pensions and Other Postretirement Benefits (continued)

The following table sets forth the plans' funded status and amounts recognized in the consolidated balance sheets:

	Pension Benefits		Other Postretirement Benefits	
	2013	**2012**	**2013**	**2012**
Change in benefit obligation				
Benefit obligation at beginning of year	**$ (931,214,510)**	$ (782,262,134)	**$ (68,007,360)**	$ (75,948,756)
Service cost	**(35,893,918)**	(31,677,554)	**(1,871,428)**	(2,469,488)
Interest cost	**(35,588,455)**	(38,864,858)	**(2,609,456)**	(3,855,362)
Employee contributions	**–**	–	**(3,785,444)**	(3,436,765)
Benefits paid	**62,626,412**	49,219,473	**8,500,705**	8,860,557
Actuarial gains and losses	**81,707,762**	(127,629,437)	**4,567,687**	8,842,454
Benefit obligation at end of year	**(858,362,709)**	(931,214,510)	**(63,205,296)**	(68,007,360)
Change in plan assets				
Fair value of plan assets at beginning of year	**629,459,961**	512,341,455	**–**	–
Actual return on plan assets	**87,315,499**	105,653,734	**–**	–
Benefits paid	**(62,626,412)**	(49,219,473)	**(8,500,705)**	(8,860,557)
Employer contribution	**53,820,743**	60,684,245	**8,500,705**	8,860,557
Fair value of plan assets at end of year	**707,969,791**	629,459,961	**–**	–
Underfunded status of the plans	**$ (150,392,918)**	$ (301,754,549)	**$ (63,205,296)**	$ (68,007,360)
Components of net periodic benefit cost				
Service cost	**$ 35,893,918**	$ 31,677,554	**$ 1,871,428**	$ 2,469,488
Interest cost	**35,588,455**	38,864,858	**2,609,456**	3,855,362
Expected return on plan assets	**(42,758,963)**	(43,310,053)	**–**	–
Net amortization and deferral	**22,482,195**	17,637,965	**(328,660)**	118,934
Settlement loss	**368,442**	953,474	**–**	–
Benefit cost included in the consolidated statements of operations and changes in net assets	**$ 51,574,047**	$ 45,823,798	**$ 4,152,224**	$ 6,443,784

The accumulated benefit obligation for the pension plans was $814,150,407 and $877,682,091 as of September 30, 2013 and 2012, respectively.

7. Pensions and Other Postretirement Benefits (continued)

The weighted-average assumptions used to develop net periodic benefit cost and the projected benefit obligation were as follows:

	September 30	
	2013	**2012**
Discount rate for projected benefit obligation	**4.65%**	3.85%
Discount rate for net periodic benefit cost	**3.85%**	5.00%
Expected long-term rate of return on plan assets	**7.50%**	8.00%
Rate of compensation increase	**3.50%**	3.50%

The expected rate of return on assets was determined by the expected return on each asset class based on a model that considers historical and expected future performance.

The Hospital has a postretirement benefit plan. The weighted-average annual assumed rate of increase in the per capita cost of covered benefits (i.e., health care cost trend rate) is assumed to be 8%. Rates are assumed to decline to 5% through 2018. This health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, a one percentage point increase in the assumed health care cost trend rate would increase the service and interest cost and accumulated postretirement benefit obligation by $2,520,503 and $1,784,633 at September 30, 2013 and 2012, respectively. A one percentage point decrease in the assumed health care cost trend rate would decrease the service and interest cost and accumulated postretirement benefit obligation by $2,227,871 and $1,532,679 at September 30, 2013 and 2012, respectively.

Plan Assets

The Hospital's pension plans weighted-average asset allocations at September 30, by asset category, are as follows:

Asset Category	**Target**	**2013**	**2012**
Equity securities	**57%**	**60%**	41%
Fixed income/debt securities	**25**	**24**	14
Commodities/inflation/real assets	**8**	**6**	34
Other	**10**	**10**	11
Total	**100%**	**100%**	100%

7. Pensions and Other Postretirement Benefits (continued)

The pension plan asset portfolio has target allocations similar to the allocations noted in the table above. The goals of the plans are to provide a secure retirement benefit for plan participants and to manage plan assets for the exclusive benefit of the participants. The Investment Committee of the Board of Directors is responsible for developing, reviewing, and monitoring the investment policy. The plans' assets are invested in accordance with the policy.

Contributions

The Hospital expects to make contributions of approximately $39.3 million and $4.5 million in fiscal year 2014 related to its defined benefit pension plan and its other postretirement benefit plan, respectively.

Estimated Future Benefits Payments

Future benefit payments are expected to be paid as follows:

Fiscal Year	Pension Benefits	Other Post-Retirement Benefits
2014	$ 61,575,901	$ 4,487,649
2015	61,520,225	4,485,564
2016	63,270,579	4,595,288
2017	69,361,298	4,618,548
2018	65,359,360	4,622,514
Years 2019 – 2023	337,126,453	22,713,351

8. Long-Term Debt

Details of long-term debt are as follows:

	September 30	
	2013	**2012**
Intercompany debt with HHC:		
Series A, consisting of a tax-exempt serial bond and term bonds; interest at rates ranging from 4.4% to 5.0%	**$ 114,454,804**	$ 92,750,683
Series B, tax-exempt variable rate term bond	**48,221,793**	48,221,793
Series C, taxable variable rate term bond	**28,831,592**	28,831,592
Master financing agreement with State of Connecticut Health and Educational Authority (CHEFA) due in monthly installments with a fixed rate of 2.75% through September 17, 2015	**8,327,342**	12,327,990
Capital lease obligations, with option to purchase, due in monthly installments with interest at 6.25% and 7.16%	**13,307,190**	8,239,129
Revolving lines of credit	**95,212,946**	58,191,234
Other notes	**1,447,256**	2,987,305
Premium on bonds	**2,168,186**	1,765,086
	311,971,109	253,314,812
Less current portion	**(101,019,021)**	(64,503,933)
	$ 210,952,088	$ 188,810,879

8. Long-Term Debt (continued)

On September 29, 2011, HHC issued approximately $375,815,000 of CHEFA Revenue Bonds Series A, B, and C (the HHC 2011 Bonds). In conjunction with the issuance of the HHC 2011 Bonds, an obligated group was formed. The members of the obligated group are HHC, Hartford Hospital, The Hospital of Central Connecticut at New Britain General and Bradley Memorial, Windham Community Memorial Hospital, and MidState Medical Center (collectively referred to as the Obligated Group). Obligated Group members are jointly and severally liable under a Master Trust Indenture (MTI) to make all payments required with respect to obligations under the MTI. HHC does have the right to name designated affiliates, although presently none exist. Though designated affiliates are not obligated to make debt service payments on the obligations under the MTI, each designated affiliate has an independent designated affiliate agreement and promissory note with HHC with stipulated repayment terms and conditions, each subject to the governing law of the Obligated Groups' state of incorporation. In addition, HHC may cause each designated affiliate to transfer such amounts as necessary to enable the Obligated Group members to comply with the terms of the MTI, including payment of the outstanding obligations.

The HHC 2011 Bonds were issued to refund portions of existing debt under HHC and to obtain funds for future capital needs. As such, the HHC 2011 Bonds are reflected as intercompany debt in the preceding schedule. The Hospital is party to the HHC 2011 Series A, Series B, and Series C Revenue Bonds. During 2013, the Hospital was allocated an additional $22,010,772 of previously unallocated Series A Revenue Bonds by HHC in accordance with the plan of refinance. The HHC Series A Revenue Bonds consist of serial bonds that mature annually from July 1, 2014 through July 1, 2023, and the term bonds mature from July 1, 2024 through July 1, 2041. During 2013, the Hospital made advance payments of $306,651 to HHC for the bonds maturing in 2014. The HHC Series B Revenue Bonds consist of term bonds that mature from July 1, 2042 through July 1, 2049. The HHC Series B Revenue Bonds are secured by an irrevocable letter of credit issued by Bank of America which expires on September 29, 2018. The HHC Series C Revenue Bonds consist of term bonds, that mature from July 1, 2042 through July 1, 2049. The HHC Series C Revenue Bonds are secured by an irrevocable letter of credit issued by JP Morgan Chase Bank that expires on October 1, 2016. The reimbursement terms of the letters of credit for the HHC Series B and C Revenue Bonds are such that in the event a letter of credit is drawn upon due to a failed remarketing, the components available shall equal the aggregate principal and interest amount of bonds outstanding.

8. Long-Term Debt (continued)

The MTI and Supplemental MTI provide for the potential establishment and maintenance of a debt service reserve fund, a pledge of gross receipts, as defined, and parity with the HHC Series A Revenue Bonds that remain outstanding. The MTI and loan agreements establish certain restrictive covenants, including a debt service coverage ratio and days cash on hand requirement. No violations of covenants existed as of or for the fiscal years ended September 30, 2013 or 2012.

The fair value of the HHC 2011 Bonds was approximately $377,885,000 and $396,836,000 at September 30, 2013 and 2012, respectively. The carrying value of the HHC 2011 Bonds was $375,815,000 as of September 30, 2013 and 2012. The fair value of the HHC 2011 Bonds was determined by HHC's investment advisor using a market approach that uses prices and other relevant information generated by market transactions involving identical or comparable liabilities and is categorized as Level 2 in the fair value hierarchy described in Note 5.

In September 2010, the Hospital entered into a master financing agreement with CHEFA for funds to be used to purchase all or a portion of the costs of various capital expenditures. The interest rate is 2.75% and payable in monthly installments of $357,156 for a period of five years. The outstanding balance related to the master financing agreement as of September 30, 2013 and 2012, was $8,327,342 and $12,327,990, respectively.

The Hospital has two capital lease obligations for satellite locations. Both leases are twenty-year leases with an option to purchase. On October 1, 2010, the Hospital entered into an arrangement with monthly installments of $71,637 and interest at 6.25%. In November 2012, the Hospital entered into another arrangement with monthly installments of $33,797 and interest at 7.16%. The outstanding capital lease obligations were $13,307,190 and $8,239,129 as of September 30, 2013 and 2012, respectively.

As part of the HHC 2011 Bonds, the Obligated Group entered into a new line of credit for $20,000,000 from Bank of America. This line expires in March 2014. As of September 30, 2013 and 2012, the Hospital had drawn $17,037,110 and $17,186,119, respectively, on this line of credit, with a variable rate of 1.27% and 1.32%, respectively, and which is included in the current portion of long-term debt on the consolidated balance sheets. In 2012, the Obligated Group entered into an additional $60,000,000 line of credit with another bank. In August 2013, the Obligated Group entered into an amendment increasing this line of credit to $100,000,000. This line of credit expires in March 2014. As of September 30, 2013, and 2012, the Hospital had

8. Long-Term Debt (continued)

drawn $78,175,836 and $41,005,115, respectively, on this line of credit, with a variable rate of 0.88% and 0.92%, respectively, and which is also included in the current portion of long-term debt.

Principal payments due on long-term debt are as follows:

Fiscal year ending September 30:	
2014	$ 101,019,021
2015	14,006,473
2016	7,251,367
2017	1,864,993
2018	2,018,338
Thereafter	183,642,731
	$ 309,802,923

Interest paid for the fiscal years ended September 30, 2013 and 2012, was $5,704,486 and $4,517,043, respectively.

9. Pledges Receivable

Pledges receivable, included in assets whose use is limited and other assets, include the following unconditional promises to give as of September 30:

	September 30	
	2013	**2012**
Due within one year	**$ 846,323**	$ 371,159
Due in one to five years	**2,288,560**	4,565,011
	3,134,883	4,936,170
Less allowance and discount to present value	**(292,505)**	(748,747)
Pledges receivable, net	**$ 2,842,378**	$ 4,187,423

The discount recognizes the present value of the pledges. The allowance recognizes the estimated uncollectible portion of the pledges.

10. Commitments and Contingencies

Various lawsuits and claims arising in the normal course of operations are pending or are in progress against the Hospital. Such lawsuits and claims are either specifically covered by insurance as explained in Note 1 or are deemed to be immaterial. While the outcomes of the lawsuits cannot be determined at this time, management believes that any loss that may arise from these actions will not have a material adverse effect on the financial position or changes in net assets of the Hospital.

The Hospital has several operating lease agreements for certain real estate, medical equipment, and computer equipment. Certain of these leases have renewal options for periods up to five years and escalation clauses. Rent is payable in equal monthly installments. Rent expense was $13,209,234 and $13,558,793 for the fiscal years ended September 30, 2013 and 2012, respectively.

The future minimum lease payments are as follows:

2014	$ 7,891,157
2015	4,056,375
2016	3,010,000
2017	2,896,689
2018	2,925,828
Thereafter	13,074,451
	$ 33,854,500

11. Related-Party Transactions

The Hospital provides services to various HHC affiliates and is reimbursed for the cost of these services. Fees charged to affiliates for the fiscal years ended September 30, 2013 and 2012, which are included in other operating revenue in the consolidated statements of operations and changes in net assets, were $74,839,946 and $43,682,386, respectively. Other intercompany activity with subsidiaries of the Hospital includes recurring transactions associated with operations and cash management, which have been eliminated in consolidation.

11. Related-Party Transactions (continued)

Amounts due from affiliates related to these services as of September 30 are as follows:

	2013	2012
Due from Hartford HealthCare	**$ 16,305,533**	$ 19,418,926
Due from Windham	–	1,478,846
Due from Hartford HealthCare at Home	**2,048,334**	487,500
Due from Hartford Medical Group	**8,626**	461,303
Due from Midstate Medical Center	**1,386,205**	250,802
Due from Natchaug	–	25,695
Due from PracticeCentral	–	1,433,810
	$ 19,748,698	$ 23,556,882

Amounts due to affiliates related to these services as of September 30 are as follows:

	2013	2012
Due to Hartford HealthCare	**$ (15,646,071)**	$ (3,395,572)
Due to Hartford HealthCare Rehabilitation Network	**(2,735,988)**	(2,566,205)
Due to Clinical Laboratory Partners	**(257,706)**	(276,021)
Due to HHMOB	**(3,340,741)**	(381,381)
Due to Hospital of Central Connecticut	**(19,211)**	–
	$ (21,999,717)	$ (6,619,179)

During 2013 and 2012, the Hospital transferred approximately $152,364,000 and $51,031,000 of unrestricted net assets primarily to provide additional funding of various affiliated organizations, and in 2013, approximately $31,758,000 of unrestricted net assets were transferred to CHS (refer to Note 1).

12. Guarantees

The Hospital guarantees certain debt issues of related parties. The related parties would not have been able to obtain favorable financing terms and rates without the Hospital's guarantee. The term of the guarantees is equal to the term of the related debt, with maturities between 2014 and 2015. The maximum potential amount of future payments the Hospital could be required to make under its guarantees at September 30, 2013 and 2012, was approximately \$1,167,000 and \$1,925,000, respectively. If the related party does not make the necessary principal and interest payments required by the debt agreements, the Hospital is required to pay the monthly debt service.

The Hospital also guarantees the termination value of a swap agreement of a related party. The arrangement relates to an interest rate swap contract with a counterparty with an original notional amount of \$19,745,000 to fix the variable rate debt at a rate of 4.15%. The Hospital would be responsible for any termination payments related to the swap in the event of either nonperformance by the counterparty or by the counterparty's election to terminate the swap agreement. This guarantee is expected to significantly reduce annual debt service payments of the related party. The swap's termination value was \$2,701,010 and \$4,387,733 as of September 30, 2013 and 2012, respectively.

13. Functional Expenses

The Hospital provides health care services to residents within its geographic location. Net expenses related to providing these services are as follows:

	Year Ended September 30	
	2013	**2012**
Health care services	**\$ 970,833,816**	\$ 924,162,698
Support services	**104,882,324**	99,840,291
	\$ 1,075,716,140	\$ 1,024,002,989

14. Supplemental Cash Flow Information

The changes in assets and liabilities are as follows:

	Year Ended September 30	
	2013	**2012**
Increase in accounts receivable	**$ (16,354,978)**	$ (49,004,264)
Decrease (increase) in other receivables	**941,333**	(11,916,958)
Decrease (increase) in due to and from affiliates	**19,188,723**	(158,281)
Increase in interest in investments held by Endowment LLC	**(6,932,385)**	–
(Increase) decrease in inventories of supplies and prepaid expenses and other assets	**(3,123,019)**	1,590,058
Decrease (increase) in other assets	**594,920**	(11,848,378)
Increase (decrease) in estimated third-party settlements	**9,525,279**	(3,290,373)
(Decrease) increase in accounts payable	**(4,856,887)**	7,534,911
(Decrease) increase in salaries, wages, payroll taxes, and amounts withheld from employees	**(381,019)**	2,202,373
(Decrease) increase in accrued expenses	**(5,546,181)**	522,723
(Decrease) increase in accrued pension liability and other liabilities	**(3,000,437)**	16,711,006
	$ (9,944,651)	$ (47,657,183)

15. Subsequent Event

The Hospital evaluated subsequent events through January 31, 2014, which is the date the consolidated financial statements were issued, for potential recognition in the consolidated financial statements as of the balance sheet date for the fiscal year ended September 30, 2013. No events occurred that require disclosure or adjustment to the consolidated financial statements.

Supplementary Information

Hartford Hospital

Consolidating Balance Sheet

Year Ended September 30, 2013

	Hartford Hospital	Jefferson House Combined [1]	The Institute of Living	Eliminations	Total
Assets					
Current assets:					
Cash and cash equivalents	$ 13,453,682	$ 6,462,251	$ 611,827		$ 20,527,760
Interest in investments held by Endowment LLC	6,932,385	–	–		6,932,385
Accounts receivable, less allowances for doubtful accounts of $29,195,000	149,495,353	1,193,714	–		150,689,067
Other receivables	25,401,693	4,198	5,955		25,411,846
Due from affiliates	20,670,123	1,266,206	1,538,264	$ (3,725,895)	19,748,698
Inventories of supplies	11,186,533	–	–	–	11,186,533
Prepaid expenses and other assets	11,528,573	34,240	(1)	–	11,562,812
Current portion of assets whose use is limited	450,405	–	–	–	450,405
Total current assets	239,118,747	8,960,609	2,156,045	(3,725,895)	246,509,506
Assets whose use is limited:					
Investments and other assets	10,162,106	6,456,672	1,582,791	–	18,201,569
Interest in investments held by Endowment LLC	178,809,901	75,754,161	29,453,310	–	284,017,372
Donor-restricted interest in investments held by Endowment LLC	176,329,234	6,091,075	27,665,201	–	210,085,510
Investments for restricted purposes	7,553,978	213,551	745,852	–	8,513,381
Escrow funds for long-term debt	4,538,771	–	–	–	4,538,771
Funds designated for debt service	8,817,532	–	–	–	8,817,532
	386,211,522	88,515,459	59,447,154	–	534,174,135
Funds held in trust by others	109,092,405	25,821,767	2,115,010	–	137,029,182
Other assets	71,120,072	–	–	–	71,120,072
Property, plant and equipment, net	379,065,084	9,567,609	5,563,868	–	394,196,561
Total assets	$ 1,184,607,830	$ 132,865,444	$ 69,282,077	$ (3,725,895)	$ 1,383,029,456

(1) Includes Cedar Mountain Commons

Hartford Hospital

Consolidating Balance Sheet (continued)

Year Ended September 30, 2013

	Hartford Hospital	Jefferson House Combined [1]	The Institute of Living	Eliminations	Total
Liabilities and net assets					
Current liabilities:					
Accounts payable	$ 22,176,748	$ 187,106			$ 22,363,854
Salaries, wages, payroll taxes and amounts withheld from employees	21,047,461	264,496			21,311,957
Due to affiliates	24,731,220	195,761	$ 798,631	$ (3,725,895)	21,999,717
Accrued expenses	21,726,074	1,204,416	(10,750)	–	22,919,740
Estimated third-party payor settlements	13,084,951	–	–	–	13,084,951
Current portion of long-term debt	101,019,021	–	–	–	101,019,021
Current portion of accrued pension liability	8,047,176	–	–	–	8,047,176
Current portion of other liabilities	10,988,098	–	–	–	10,988,098
Total current liabilities	222,820,749	1,851,779	787,881	(3,725,895)	221,734,514
Long-term debt, less current portion	210,952,088	–	–	–	210,952,088
Accrued pension liability	218,856,421	–	–	–	218,856,421
Other liabilities	37,533,464	–	–	–	37,533,464
Total liabilities	690,162,722	1,851,779	787,881	(3,725,895)	689,076,487
Net assets:					
Unrestricted	201,002,168	98,790,149	38,711,352	–	338,503,669
Temporarily restricted	112,993,866	3,863,027	18,433,014	–	135,289,907
Permanently restricted	180,449,074	28,360,489	11,349,830	–	220,159,393
Total net assets	494,445,108	131,013,665	68,494,196	–	693,952,969
Total liabilities and net assets	$ 1,184,607,830	$ 132,865,444	$ 69,282,077	$ (3,725,895)	$ 1,383,029,456

(1) Includes Cedar Mountain Commons

Hartford Hospital

Consolidating Statement of Operations

Year Ended September 30, 2013

	Hartford Hospital	Jefferson House Combined [1]	The Institute of Living	Eliminations	Total
Unrestricted revenues, gains and other support:					
Net patient service revenue	$ 921,252,388				$ 921,252,388
Provision for bad debts	(17,467,613)				(17,467,613)
Net patient service revenue less provision for bad debts	903,784,775				903,784,775
Other operating revenue	158,990,982		$ 532,270	$ (239,236)	159,284,016
Net assets released from restrictions for operations	7,604,749	$ 15,396	23,686	–	7,643,831
	1,070,380,506	15,396	555,956	(239,236)	1,070,712,622
Operating expenses:					
Salaries and wages	470,455,992	–	–	–	470,455,992
Employee benefits	164,809,818	–	–	–	164,809,818
Supplies and other	209,462,025	11,308	317,484	(239,236)	209,551,581
Purchased services	176,393,202	4,088	–	–	176,397,290
Depreciation and amortization	48,416,843	–	380,129	–	48,796,972
Interest	5,704,487	–	–	–	5,704,487
	1,075,242,367	15,396	697,613	(239,236)	1,075,716,140
Loss from operations	(4,861,861)	–	(141,657)	–	(5,003,518)
Nonoperating income (loss):					
Income from investments, gifts and bequests, net	61,074,501	22,823,638	8,112,874	–	92,011,013
Other	(4,640,080)	(1,662,083)	(41,236)	–	(6,343,399)
	56,434,420	21,161,555	8,071,638	–	85,667,614
Excess of revenues over expenses before change in unrealized gains and losses on investments	51,572,559	21,161,555	7,929,981	–	80,664,096
Change in unrealized gains and losses on investments	(27,113,441)	(11,820,429)	(4,402,866)	–	(43,336,736)
Excess of revenues over expenses	$ 24,459,118	$ 9,341,126	$ 3,527,116	$ –	$ 37,327,360

(1) Includes Cedar Mountain Commons

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